

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Rothbury	County Oceana
Audit Date 3/31/06	Opinion Date 7/18/06	Date Accountant Report Submitted to State 8/30/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

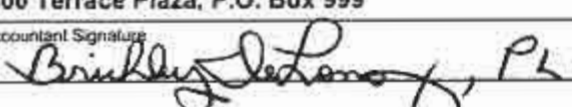
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Brickley DeLong, PLC			
Street Address 500 Terrace Plaza, P.O. Box 999		City Muskegon	State MI
Accountant Signature 		ZIP 49443-0999	Date 8/30/06

Village of Rothbury
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2006

Village of Rothbury
LIST OF ELECTED OFFICIALS
March 31, 2006

Village PresidentRobert Walker

Village Clerk.....Carol Witzke

Village TreasurerAnna Priese

Village Council John Anderson
Robert Fulljames
Mike Harris
Leatrice Machovsky
Cynthia McDonald
Gail Zemmol

Village of Rothbury

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As management of the Village of Rothbury, we present to the readers of the Village's financial statements this overview and analysis of the financial activities of the Village for the fiscal year ended March 31, 2006. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the Village had total assets of \$738,178 and total liabilities of \$4,908 leaving net assets of \$733,270, an increase of 2% in the Village's overall net assets.
- The General Fund fund balance increased \$15,042.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Village's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development and cultural and recreational activities. The Village does not currently have any business-type activities.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village are governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the two.

The Village maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Streets Fund, and Local Streets Fund, which are considered to be major funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budgetary information as it relates to the actual expenditures for the General Fund, Major Streets Fund, and Local Streets Fund.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide Statement of Net Assets for the Village. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2006, the Village's net assets from governmental activities totaled \$733,270.

The decrease in current liabilities reflects lower payables at the end of the current fiscal year due to payment of the Road Commission bill prior to year end.

In examining the composition of these net assets, the reader should note that a portion of governmental activities net assets are invested in capital assets (i.e., infrastructure, buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the Village's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental activities actually depict a balance of \$94,938. This represents the amount of discretionary resources that can be used for general governmental operations.

Net Assets

	Governmental Activities	
	2006	2005
Current assets and other assets	\$ 418,519	\$ 408,109
Capital assets	319,659	328,227
Total assets	738,178	736,336
Current liabilities	4,908	17,808
Net assets		
Invested in capital assets	319,659	328,227
Restricted	318,673	309,931
Unrestricted	94,938	80,370
Total net assets	\$ 733,270	\$ 718,528

Governmental Activities

Governmental activities net assets increased by \$14,742 (2%) during the 2006 fiscal year. General government and culture and recreation expenses decreased due to lower professional fees and maintenance costs. Public works expenses increased because additional money was spent on road maintenance. The following table depicts these occurrences.

Change in Net Assets

	Governmental Activities	
	2006	2005
Revenues:		
Program revenues		
Charges for services	\$ 34,650	\$ 39,683
Operating grants	53,932	53,670
General revenues		
Property taxes	86,142	82,051
Franchise fees	1,172	1,243
Grants and contributions not restricted	32,855	32,868
Unrestricted investment earning	1,955	1,124
Miscellaneous	1,404	2,510
Total revenues	212,110	213,149
Expenses:		
General government	65,055	81,807
Public safety	49,750	45,806
Public works	52,395	34,409
Community and economic development	6,268	12,831
Culture and recreation	23,900	35,478
Total expenses	197,368	210,331
Change in net assets	14,742	2,818
Net assets - Beginning	718,528	715,710
Net assets - Ending	\$ 733,270	\$ 718,528

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2006 fiscal year, the Village's governmental funds reported a combined unreserved fund balance of \$413,611. This number represents the unreserved fund balance of \$94,938 in the General Fund, \$135,489 in the Major Streets Fund, and \$183,184 in the Local Streets Fund.

General Fund Budget

During the current fiscal year, the Village only made one significant amendment to its original budget. The budget for police was increased from \$54,600 to \$63,100 to pay for the training of three new part-time police officers.

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- Village Council expenditures were under budget by \$14,597 because of lower than expected professional fees.
- Village hall expenditures were under budget by \$21,073 because expected capital purchases did not materialize.
- Police expenditures were under budget by \$14,784 because of employee vacancies.
- Rothbury Community Center expenditures were under budget by \$13,278 because of lower than expected capital expenditures.

Capital Assets

The Village investment in capital assets for its governmental activities as of March 31, 2006 totaled \$319,659 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure, and furniture and equipment.

The only significant capital asset additions during the current year were sidewalk construction of \$12,799. Some small equipment was also purchased.

**Capital Assets
(Net of Accumulated Depreciation)**

	Governmental Activities	
	2006	2005
Land	\$ 39,701	\$ 39,701
Land improvements	2,322	2,921
Buildings and improvements	150,333	155,378
Furniture and equipment	30,799	34,428
Vehicles	12,606	16,267
Infrastructure	83,898	79,532
Total	<u>\$ 319,659</u>	<u>\$ 328,227</u>

Additional information on the Village's capital assets can be found in Note D of the "Notes to the Financial Statements" of this report.

General Economic Overview

The Village of Rothbury has set fiscal accountability and financial stability as its number one priority. This is also its greatest challenge.

The Village's General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised 74% of the General Fund's revenue sources. In fiscal 2007, both state revenue sharing and property tax revenues are expected to remain flat.

Other than purchasing a new police car, the Village expects General Fund expenditures in 2007 to be approximately the same as 2006 expenditures. The Council does not plan to have any other major capital outlays or significant or unusual transactions and expects fund balance to remain about the same in the General Fund.

In the Major Streets and Local Streets funds, the Village intends to spend about \$54,000 more for street preservation and improvement in fiscal 2007.

Requests for Information

This financial report is designed to provide a general overview of the Village of Rothbury's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Village of Rothbury, 7804 S. Michigan Avenue, Rothbury, Michigan 49452 (231) 894-2385.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

July 18, 2006

To the Village Council
Village of Rothbury
Rothbury, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Rothbury as of and for the year ended March 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Rothbury's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Rothbury, as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - vii and 17 - 19 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Village of Rothbury
STATEMENT OF NET ASSETS
 March 31, 2006

ASSETS

	Governmental activities
CURRENT ASSETS	
Cash and investments	\$ 400,068
Property taxes receivable	5,206
Due from other governmental units	<u>13,245</u>
Total current assets	418,519
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	39,701
Depreciable	<u>279,958</u>
Total noncurrent assets	<u>319,659</u>
Total assets	738,178
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	1,508
Deferred revenue	<u>3,400</u>
Total current liabilities	<u>4,908</u>
NET ASSETS	
Invested in capital assets	319,659
Restricted for streets	318,673
Unrestricted	<u>94,938</u>
Total net assets	<u><u>\$ 733,270</u></u>

The accompanying notes are an integral part of this statement.

Village of Rothbury
STATEMENT OF ACTIVITIES
For the year ended March 31, 2006

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
				Governmental activities
Governmental activities				
General government	\$ 65,055	\$ 16,897	\$ -	\$ (48,158)
Public safety	49,750	8,868	-	(40,882)
Public works	52,395	-	53,932	1,537
Community and economic development	6,268	-	-	(6,268)
Culture and recreation	23,900	8,885	-	(15,015)
Total governmental activities	<u>\$ 197,368</u>	<u>\$ 34,650</u>	<u>\$ 53,932</u>	(108,786)
General revenues				
Property taxes, levied for general purposes				86,142
Franchise fees				1,172
Grants and contributions not restricted to specific programs				32,855
Unrestricted investment earnings				1,955
Miscellaneous				<u>1,404</u>
Total general revenues				<u>123,528</u>
Change in net assets				14,742
Net assets at April 1, 2005				<u>718,528</u>
Net assets at March 31, 2006				<u>\$ 733,270</u>

The accompanying notes are an integral part of this statement.

Village of Rothbury
BALANCE SHEET
Governmental Funds
March 31, 2006

	General Fund	Major Streets Fund	Local Streets Fund	Other governmental fund	Total governmental funds
ASSETS					
Cash and investments	\$ 88,054	\$ 129,880	\$ 182,134	\$ -	\$ 400,068
Property taxes receivable	5,206	-	-	-	5,206
Due from other governmental units	5,078	5,609	2,558	-	13,245
Total assets	<u>\$ 98,338</u>	<u>\$ 135,489</u>	<u>\$ 184,692</u>	<u>\$ -</u>	<u>\$ 418,519</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 1,508	\$ -	\$ 1,508
Deferred revenue	3,400	-	-	-	3,400
Total liabilities	3,400	-	1,508	-	4,908
Fund balances					
Unreserved					
General Fund	94,938	-	-	-	94,938
Special revenue funds	-	135,489	183,184	-	318,673
Total fund balances	94,938	135,489	183,184	-	413,611
Total liabilities and fund balances	<u>\$ 98,338</u>	<u>\$ 135,489</u>	<u>\$ 184,692</u>	<u>\$ -</u>	<u>\$ 418,519</u>

The accompanying notes are an integral part of this statement.

Village of Rothbury
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**
March 31, 2006

Total fund balances—governmental funds	\$	413,611
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$	677,386	
Accumulated depreciation		<u>(357,727)</u>	<u>319,659</u>

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>733,270</u></u>
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The accompanying notes are an integral part of this statement.

Village of Rothbury
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended March 31, 2006

	General Fund	Major Streets Fund	Local Streets Fund	Other governmental fund	Total governmental funds
REVENUES					
Property taxes	\$ 86,142	\$ -	\$ -	\$ -	\$ 86,142
Licenses and permits	3,645	-	-	-	3,645
Intergovernmental revenues - state	35,060	30,600	13,956	-	79,616
Charges for services	30,615	-	-	-	30,615
Fines and forfeitures	1,563	-	-	-	1,563
Investment earnings	1,947	3,072	4,099	7	9,125
Other	1,404	-	-	-	1,404
Total revenues	160,376	33,672	18,055	7	212,110
EXPENDITURES					
Current					
General government	63,200	-	-	-	63,200
Public safety	48,316	-	-	-	48,316
Public works	7,562	35,819	7,166	-	50,547
Community and economic development	6,268	-	-	-	6,268
Culture and recreation	19,988	-	-	-	19,988
Other governmental functions	-	-	-	481	481
Total expenditures	145,334	35,819	7,166	481	188,800
Excess of revenues over (under) expenditures	15,042	(2,147)	10,889	(474)	23,310
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	7,410	-	7,410
Transfers out	-	(7,410)	-	-	(7,410)
Total other financing sources (uses)	-	(7,410)	7,410	-	-
Net change in fund balances	15,042	(9,557)	18,299	(474)	23,310
Fund balances at April 1, 2005	79,896	145,046	164,885	474	390,301
Fund balances at March 31, 2006	<u>\$ 94,938</u>	<u>\$ 135,489</u>	<u>\$ 183,184</u>	<u>\$ -</u>	<u>\$ 413,611</u>

The accompanying notes are an integral part of this statement.

Village of Rothbury
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended March 31, 2006

Net change in fund balances—total governmental funds	\$	23,310
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (23,066)	
Capital outlay	<u>17,648</u>	(5,418)

Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.

(3,150)

Change in net assets of governmental activities	\$	<u><u>14,742</u></u>
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The accompanying notes are an integral part of this statement.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Rothbury (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

Reporting Entity

The Village is a municipal corporation governed by an elected seven-member Village Council.

Generally accepted accounting principles require that if the Village has certain oversight responsibilities over other organizations, those organizations should be included in the Village's financial statements. Since no organizations met his criteria, none are included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Village. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Village has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund and Local Street Fund account for money distributed by the State of Michigan for street maintenance.

The Village only has one other governmental fund, the Walter J. Kurdziel, Jr. Memorial Fund which was closed during the year ended March 31, 2006.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Village reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Village intends to hold the investment until maturity.

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Village bills and collects its own property taxes. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollected real property taxes as of September 14 are turned over by the Village to the County for collection. The County advances the Village all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Village. The Village recognizes available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 state taxable value for real/personal property of the Village totaled approximately \$10,501,000. The ad valorem taxes levied consisted of 7.2558 mills for the Village's operating purposes. These amounts are recognized in the General Fund.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

In the case of the initial capitalization of general infrastructure (i.e., those reported by governmental activities) the Village chose to include all such items regardless of their acquisition date or amount. The Village was able to estimate the historical cost of the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year).

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets—Continued

Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	20-50
Furniture and equipment	5-20
Vehicles	8
Infrastructure	10-20

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. In March, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Not later than March 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level. The Village Council made several supplemental budgetary appropriations throughout the year.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Village's investment policy does not authorize it to invest in commercial paper or corporate bonds.

Concentration of credit risk. The Village does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Village investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Village does not have any investments exposed to concentration of credit risk.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2006, \$12,422 of the Village's bank balance of \$407,461 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. The Village does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village does not have any investments exposed to custodial credit risk.

Foreign currency risk. The Village is not authorized to invest in investments which have this type of risk.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	Balance April 1, 2005	Additions	Deductions	Balance March 31, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 39,701	\$ -	\$ -	\$ 39,701
Capital assets, being depreciated:				
Land improvements	52,818	-	-	52,818
Buildings and improvements	320,229	-	-	320,229
Furniture and equipment	67,032	4,849	8,400	63,481
Vehicles	32,893	-	3,600	29,293
Infrastructure	159,065	12,799	-	171,864
Total capital assets, being depreciated	632,037	17,648	12,000	637,685
Less accumulated depreciation:				
Land improvements	49,897	599	-	50,496
Buildings and improvements	164,851	5,045	-	169,896
Furniture and equipment	32,604	5,328	5,250	32,682
Vehicles	16,626	3,661	3,600	16,687
Infrastructure	79,533	8,433	-	87,966
Total accumulated depreciation	343,511	23,066	8,850	357,727
Total capital assets, being depreciated, net	288,526	(5,418)	3,150	279,958
Capital assets, net	\$ 328,227	\$ (5,418)	\$ 3,150	\$ 319,659

Depreciation expense has been charged to functions as follows:

Government activities:	
General government	\$ 3,296
Public safety	4,362
Public works	11,497
Culture and recreation	3,911
	\$ 23,066

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE E—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the General Fund reported \$3,400 in deferred revenue which was comprised of unearned deposits and rent for the Rothbury Community Center.

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The Major Streets Fund transferred \$7,400 to the Local Streets Fund for road improvements.

NOTE G—OTHER INFORMATION

Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village manages its liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The Village pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Village expects such amounts, if any, to be immaterial.

Village of Rothbury
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2006

NOTE H—PENSION PLANS

Defined Contribution Plan

The Village provides pension benefits for all of its employees and elected officials through a defined contribution plan. In a defined contributions plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees who have attained the age of 18 shall be eligible to participate in the plan. The plan requires the Village to contribute an amount equal to 7.5 percent of the employee's annual compensation each plan year. Employees are not required to contribute. All employees are immediately vested in the Village's contribution.

For fiscal year 2006, the Village's total contribution to the defined contribution plan was \$5,365, and the employee contributions were \$4,319.

NOTE I—ECONOMIC DEPENDENCY

The Village's General Fund has a significant economic dependence on a local corporation. During the year ended March 31, 2006, the corporation's billings for property taxes approximated 47 percent of total property taxes in the General Fund.

NOTE J—SUBSEQUENT EVENT

Subsequent to year end, the Village ordered a new police car for approximately \$21,000. The Village also spent approximately \$54,000 on street preservation and improvement subsequent to year end.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Rothbury
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 82,000	\$ 82,000	\$ 86,142	\$ 4,142
Licenses and permits	4,200	4,200	3,645	(555)
Intergovernmental revenues - state	34,000	34,000	35,060	1,060
Charges for services	37,000	37,000	30,615	(6,385)
Fines and forfeitures	1,000	1,000	1,563	563
Investment earnings	1,200	1,200	1,947	747
Other	3,000	3,000	1,404	(1,596)
Total revenues	162,400	162,400	160,376	(2,024)
EXPENDITURES				
Current				
General government				
Village Council	32,800	33,800	19,203	14,597
Elections	500	500	-	500
Clerk	8,800	9,800	8,982	818
Treasurer	9,400	9,400	7,988	1,412
Village hall	46,100	48,100	27,027	21,073
Unallocated	21,500	9,000	-	9,000
Public safety				
Police	54,600	63,100	48,316	14,784
Public works				
Street lighting	11,000	11,000	7,562	3,438
Roads	1,000	1,000	-	1,000
Community and economic development				
Planning	12,700	12,700	6,268	6,432
Culture and recreation				
Rothbury Community Center	26,300	26,300	13,022	13,278
Recreation	7,700	7,700	6,966	734
Total expenditures	232,400	232,400	145,334	87,066
Net change in fund balance	\$ (70,000)	\$ (70,000)	15,042	\$ 85,042
Fund balance at April 1, 2005			79,896	
Fund balance at March 31, 2006			\$ 94,938	

Village of Rothbury
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended March 31, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Intergovernmental revenues - state	\$ 31,000	\$ 31,000	\$ 30,600	\$ (400)
Investment earnings	2,000	2,000	3,072	1,072
Total revenues	33,000	33,000	33,672	672
EXPENDITURES				
Current				
Public works				
Construction	10,000	50,000	12,799	37,201
Routine maintenance	64,500	64,500	18,550	45,950
Winter maintenance	15,000	15,000	4,470	10,530
Total expenditures	89,500	129,500	35,819	93,681
Excess of revenues over (under) expenditures	(56,500)	(96,500)	(2,147)	94,353
OTHER FINANCING USES				
Transfers out	(7,500)	(7,500)	(7,410)	90
Net change in fund balance	\$ <u>(64,000)</u>	\$ <u>(104,000)</u>	(9,557)	\$ <u>94,443</u>
Fund balance at April 1, 2005			<u>145,046</u>	
Fund balance at March 31, 2006			\$ <u><u>135,489</u></u>	

Village of Rothbury
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Local Streets Fund
For the year ended March 31, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Intergovernmental revenues - state	\$ 13,500	\$ 13,500	\$ 13,956	\$ 456
Investment earnings	<u>2,500</u>	<u>2,500</u>	<u>4,099</u>	<u>1,599</u>
Total revenues	16,000	16,000	18,055	2,055
EXPENDITURES				
Current				
Public works				
Construction	10,000	10,000	-	10,000
Routine maintenance	64,500	64,500	5,658	58,842
Winter maintenance	<u>15,000</u>	<u>15,000</u>	<u>1,508</u>	<u>13,492</u>
Total expenditures	<u>89,500</u>	<u>89,500</u>	<u>7,166</u>	<u>82,334</u>
Excess of revenues over (under) expenditures	(73,500)	(73,500)	10,889	84,389
OTHER FINANCING SOURCES				
Transfers in	<u>7,500</u>	<u>7,500</u>	<u>7,410</u>	<u>(90)</u>
Net change in fund balance	\$ <u><u>(66,000)</u></u>	\$ <u><u>(66,000)</u></u>	18,299	\$ <u><u>84,299</u></u>
Fund balance at April 1, 2005			<u>164,885</u>	
Fund balance at March 31, 2006			\$ <u><u>183,184</u></u>	